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How to Start a Consulting Business

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Years ago, a "good job" meant working for a large, stable company, getting a regular income with some additional benefits, and eventually retiring at a ripe old age. Today, the same definition doesn't hold for many people. Instead, a "good job" may mean one that leaves time to spend with the family or one that provides a better-than-average income or one that allows you to work in the comfort of your own home. If these aspects appeal to you, then consulting may be a viable option.

Several years ago, I decided to leave the company I worked for and offer my engineering skills on a contract basis to any company that was willing to pay for them. I was lucky enough to know several consultants who gave me good advice on starting out. Here are the questions that I asked six years ago, and that most people ask me today.

1. When is a good time to become a consultant?

I have never been able to find a correlation between the availability of consulting jobs and any other factors such as the economy, the unemployment rate, the stock market, or who wins the World Series. But if I had to pick a good time for consulting, this would be it. As large, established companies are laying off workers, and new startups are hiring at ravenous rates, people are realizing that job security is not guaranteed even for employees of large, "stable" companies. The lack of security as a consultant doesn't seem so bad, and the much higher potential income of consulting begins to look more tempting.



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2. How do I get started as a consultant?

First, if you have a full time job, hang on to it. It may take months to get your first contract. My strategy has been to look in the want ads for permanent positions that ask for someone with my qualifications. I then send resumes out, but I make it very clear that I am looking for a consulting position. Most managers won't be interested since they advertised for a permanent position. A very small percentage will call me up for an interview. Some will keep my resume on file and call me months or years later when they do need a consultant. But be patient. I have often sent out over 150 resumes to get only one call - but that call can turn onto a yearlong contract.

Also, don't be shy. Talk to your friends in the industry. Talk to former bosses. Talk to friends of friends. When a consulting position eventually does become available, everyone will benefit - they will have found someone to perform an important task, and you will have found work.

3. What does the government require?

You need a business license, which you can obtain for a small fee from City Hall. If you plan to do business under another name, such as Abracadabra Graphics, you'll need to file a fictitious business name statement. Your city government offices will have someone who can help you find out all of the requirements.

You don't need a reseller's license and you don't need to charge tax since you will be providing a service. Only goods are taxable, not services. You will need to



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file your state and federal income taxes quarterly since no one will be withholding them from your paychecks. It's important to talk to an accountant about this before getting started. The accountant can also tell you which items and expenses are tax deductible.

You do not need to incorporate! This is a common misconception that causes consultants to waste hundreds of dollars and hours of time filing incorporation papers. Forming a corporation is not required by the government or by your clients, and it does not protect you from liability. If you plan on expanding and you want to hire your own employees, you may wish to incorporate. Otherwise, don't bother.

4. What about the IRS?

The IRS has a particular set of guidelines for determining who is a consultant and who isn't. The more criteria you meet, the more likely you will pass an IRS audit. A key point for a consultant is that you determine your own hours and methods of working. Even if you work at the client's premises, you should have the ability to come and go freely without being constrained to normal working hours. Similarly, you should have the ability to work as many or as few days of the week in order to get your work done. The client can only demand that the work be completed.

Similarly, the IRS may get suspicious if you work for only one client for a prolonged period of time, say greater than a year. Unfortunately, the IRS has a lot of leeway in these matters, and the rules seem to change periodically. If the IRS should decide that you are an employee rather than a consultant, your client



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will be responsible for paying half of your Social Security Tax, and your business deductions will be disallowed. This happens rarely, but to be prepared it's a good idea to write the IRS for their guidelines on Independent Contractors.

5. Should I go out and buy lots of equipment?

Yes and no. To be successful you will need to contact a lot of people and keep track of your contracts, invoices, etc. For this, a computer with word processing, database, and spreadsheet software is essential. An inexpensive system can be put together for under \$1000.00. But don't go overboard. Keep your expenses low by purchasing only essential equipment. As your business grows you can invest in better, more expensive tools.

6. Do I really need a contract?

Absolutely. Even if you are doing business with your mother. A contract is not a sign that you mistrust your client. Instead, it is used to make absolutely certain that you both understand what is to be done and how. You don't want to be two weeks into a six month project and find out that the client wants to pay you at completion and you were expecting a check next week to feed your three kids.

Many companies have a standard contract, but it usually protects them more than it does you. If they insist on using their contract, insist on putting in clauses for your protection. To make up your own standard contract, see a lawyer or an established consultant. The important items in the contract are: when will you invoice the client and when will they pay you; who can terminate the contract and

how; what are the milestones and deliverables; the length of time the contract will run; that you are not liable for any damages resulting from your work; and how to resolve contractual disagreements.

7. How much should I charge?

How much you charge depends on many factors including how badly you need business and how badly the client needs your services. It is good to contact other consultants in your field who work near you. Ask them how much they charge. You may want to charge less when you start out in order to encourage people to go with you. Once you are established, you can charge more money, particularly for jobs requiring more specialized expertise. Similarly, if work is slow you may want to charge less. Some consultants charge on a per job basis and some on an hourly basis. Hourly is, of course, to your advantage, because if the specification of the project changes, which happens often, you are not penalized. If you must charge on a project basis, either because the client insists or it is standard practice in your field, be sure to estimate the time to perform all aspects of the job. Then assume things will go wrong (they always do), and add more time to your estimate. Then decide how much money you want to make for this amount of time. This is your bid.

8. When should I start?

If you're really interested in consulting - you're not afraid of the risks and you're confident in your abilities, start sending out resumes right now. The opportunities are out there right now and the first people to grab at them are going to be the



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first ones to get them.

Bob Zeidman is the president of The Chalkboard Network, which provides in-depth Internet based courses on high tech subjects. He has been working in the electronics industry for over 17 years and was an independent consultant for 13 of those years. Bob is the author of the textbook, *Verilog Designer's Library* from Prentice-Hall, as well as a number of articles on engineering and business. He holds an MSEE from Stanford University, and a BSEE and a BA in physics from Cornell University.